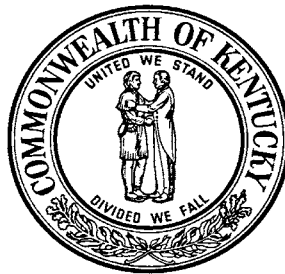


**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

April 19, 2001



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

April 19, 2001

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Scott County Sheriff as of April 19, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected net taxes of \$12,032,721 for the districts for 2000 taxes. The Sheriff distributed taxes of \$11,680,323 to the districts for 2000 Taxes. No taxes are due to the districts from the Sheriff and refunds of \$90,360 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Enter Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Reconcile Tax Collection Records At The End Of Each Month

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George Lusby, Scott County Judge/Executive

Honorable Bobby Hammons, Scott County Sheriff

Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the Scott County Sheriff's Settlement - 2000 Taxes as of April 19, 2001. This tax settlement is the responsibility of the Scott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Scott County Sheriff's taxes charged, credited, and paid as of April 19, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Enter Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Reconcile Tax Collection Records At The End Of Each Month

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 22, 2002

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

April 19, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,066,164	\$ 1,658,477	\$ 5,227,163	\$ 2,164,183
Tangible Personal Property	127,196	142,816	418,538	540,474
Intangible Personal Property				446,167
Increased Through Erroneous				
Assessments	2,095	2,603	7,814	7,541
Franchise Corporation	94,212	122,435	367,298	
Additional Billings	1,015	1,465	4,269	2,128
Limestone, Sand, and Mineral Reserves	322	501	1,579	631
Penalties	6,719	10,047	31,068	14,450
Adjusted to Sheriff's Receipt	2,790	4,858	2,788	(626)
Gross Chargeable to Sheriff	<u>\$ 1,300,513</u>	<u>\$ 1,943,202</u>	<u>\$ 6,060,517</u>	<u>\$ 3,174,948</u>
<u>Credits</u>				
Exonerations	\$ 3,626	\$ 4,697	\$ 14,098	\$ 11,983
Discounts	20,585	31,105	97,370	55,590
Delinquents:				
Real Estate	11,560	17,981	56,674	22,637
Tangible Personal Property	10,187	11,555	33,862	36,680
Intangible Personal Property				6,269
Total Credits	<u>\$ 45,958</u>	<u>\$ 65,338</u>	<u>\$ 202,004</u>	<u>\$ 133,159</u>
Net Tax Yield	\$ 1,254,555	\$ 1,877,864	\$ 5,858,513	\$ 3,041,789
Less: Commissions *	<u>53,606</u>	<u>79,809</u>	<u>164,038</u>	<u>129,564</u>
Net Taxes Due	\$ 1,200,949	\$ 1,798,055	\$ 5,694,475	\$ 2,912,225
Taxes Paid	1,208,349	1,810,920	5,729,988	2,931,066
Refunds (Current and Prior Year)	<u>1,259</u>	<u>1,902</u>	<u>10,135</u>	<u>2,445</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (8,659)</u>	<u>\$ (14,767)</u>	<u>\$ (45,648)</u>	<u>\$ (21,286)</u>

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES
April 19, 2001
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	6,164,208
2.8% on	\$	5,858,513

** Special Taxing Districts:

Library District	\$	(6,513)
Health District		(6,495)
Extension District		<u>(1,759)</u>

Refunds Due Sheriff	\$	<u><u>(14,767)</u></u>
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The accompanying notes are an integral part of the financial statement.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

April 19, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT
April 19, 2001
(Continued)

Note 3. Property Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2000, through April 19, 2001.

Note 4. Interest Income

The Scott County Sheriff earned \$37,631 as interest income on 2000 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Scott County Sheriff collected \$38,516 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Fees

The Scott County Sheriff collected \$1,357 of advertising fees allowed by KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office. As of August 22, 2002, the Sheriff owes \$695 in advertising fees to his fee account.

COMMENTS AND RECOMMENDATIONS

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS

April 19, 2001

STATE LAWS AND REGULATIONS:

The Sheriff Should Enter Into A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral. We recommend that the sheriff enter into a written agreement to protect deposits.

Sheriff's Response:

This will be done in the future.

INTERNAL CONTROL:

Lacks Adequate Segregation Of Duties

The internal control system of the Scott County Sheriff's Office lacks an adequate segregation of duties. Due to a limited staff size, the bookkeeper collects taxes, records the collections, and reconciles the monthly reports and ledgers to the tax account bank statements. Adequate segregation could be accomplished if personnel other than the bookkeeper collected the taxes, and the Sheriff verified the reconciliation prepared by the bookkeeper. We recommend the Sheriff implement controls to adequately segregate the duties of tax collections, their recording and reconciliation.

Sheriff's Response:

None.

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS
April 19, 2001
(Continued)

The Sheriff Should Reconcile Tax Collection Records At The End Of Each Month

The Sheriff's office uses Computer Aid software for their tax collections. At the end of each month, this system prints a monthly report listing taxes collected for each district less Sheriff's commission. The bookkeeper then distributes the taxes to the districts according to this printout. At the end of the audit, the draft settlement showed the Sheriff overpaid the districts a total of \$79,511. It was discovered that after a computer crash in January 2001, the monthly reports by the Computer Aid software were overstating gross taxes and understating penalties resulting in erroneous amounts paid to each district. The Sheriff's bookkeeper paid the districts according to the computer printouts without first reconciling the printouts to the manual tax collection ledger. Had the bookkeeper reconciled the two records, the error may have been discovered before the districts were paid. We recommend the bookkeeper begin reconciling the monthly reports generated by the computer with the manual daily tax collection ledger in order to discover discrepancies in a more timely manner

Sheriff's Response:

This has already been done and is up to date for this year.

PRIOR YEAR:

The Sheriff Should Reconcile Tax Collection Records At The End Of Each Month

This comment was not corrected and is being repeated in the current audit report.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Members of the Scott County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Scott County Sheriff's Settlement - 2000 Taxes as of April 19, 2001, and have issued our report thereon dated August 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Scott County Sheriff's Settlement - 2000 Taxes as of April 19, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comments and recommendations.

- The Sheriff Should Enter Into A Written Agreement To Protect Deposits



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties
- The Sheriff Should Reconcile Tax Collection Records At The End Of Each Month

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider both of the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 22, 2002

